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ABSTRACT

This lesson on keeping business records, the 15th in a series of 18 units, is part of the first level of a comprehensive entrepreneurship curriculum entitled: A Program for Acquiring Competence in Entrepreneurship (PACE). (Designed for use with secondary students, the first level of PACE introduces students to the concepts involved in entrepreneurship and helps them become aware of entrepreneurship as a career option.) The following topics are included in the unit: the reasons for keeping business records, the elements of a sound recordkeeping system, the difference between a single-entry and a double-entry system, the uses of the checkbook in recordkeeping, suitable recording forms for accounts receivable, reconciling a bank statement, and developing a simple recordkeeping system for payroll records. Included in the lesson are instructional text organized in a question-and-answer format, individual and group activities, a case study, and assessment questions. (MN)

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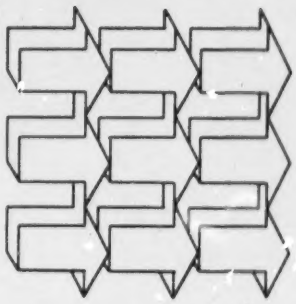

UNIT 15

☑ Level 1
☐ Level 2
☐ Level 3

Keeping the Business Records

Developed by M. Catherine Ashmore and Sandra G. Pritz

You will be able to:

- **Identify the reasons for keeping business records.**
- **Identify the elements of a sound recordkeeping system.**
- **Describe the difference between a single-entry recordkeeping system and the double-entry system.**
- **Describe the uses of the checkbook in recordkeeping.**
- **Identify suitable recording forms for accounts receivable.**
- **Reconcile a bank statement.**
- **Develop a simple recordkeeping system for payroll records.**

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BEFORE YOU BEGIN. . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read the Unit Objectives on the front cover. If you think you can meet these objectives now, consult your instructor.

3. Look for these business terms as you read this unit. If you need help with their meaning, turn to the Glossary in the *Resource Guide*.

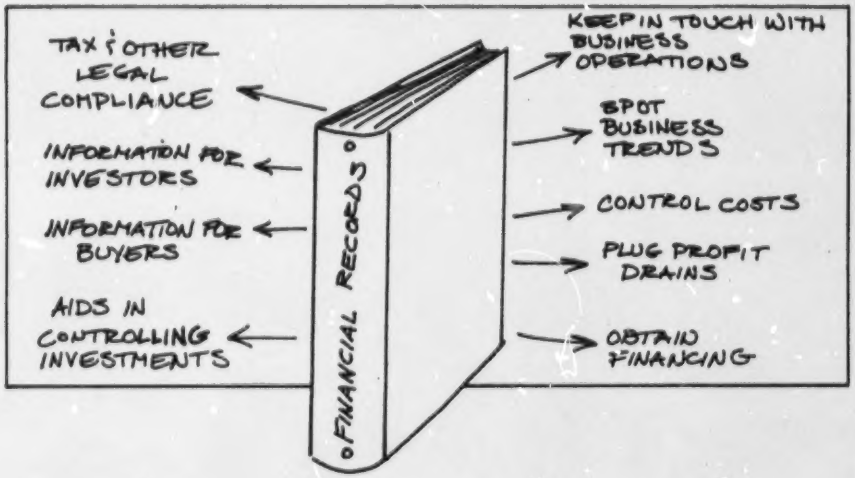
   accounts receivable
   credit
   debit
   debt-reconciliation

KEEPING THE BUSINESS RECORDS

WHAT IS THIS UNIT ABOUT?

A business cannot operate successfully without proper recordkeeping. One of the main reasons for business failures is the lack of adequate records, and especially the lack of adequate financial records. Keeping business records is a form of scorekeeping. Small business owners/managers can know the current score of their business with accurate and up-to-date records.

This unit will explore the basic reasons for keeping business records and the requirements of a good recordkeeping system. The concept of single versus double-entry bookkeeping will be introduced. In addition, information will be presented regarding common recordkeeping needs.



WHY KEEP RECORDS?

As you start your business, you might wonder, "Why go to all the trouble and fuss of keeping business records?" Actually, good records are needed for several reasons, including the following:

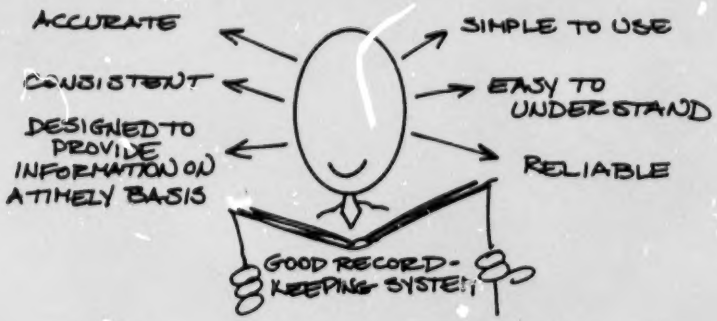
- Your records are the way you keep in touch with the day-to-day, week-to-week, and month-to-month operations of the business.
- Your records will help you spot business trends, such as high and low points in sales, operating costs, inventory levels, and credit totals.
- Your records will help you keep control of costs and develop realistic, competitive, profit producing prices. In addition, they will help you plug profit drains, such as theft, inadequate cost control, and other factors.
- Your records will be needed if you wish to obtain financing. In fact, most creditors and some suppliers will be interested in seeing your records prior to extending credit to you.

- Your records are required for tax and legal purposes.
- Your records provide information for business investors or potential investors such as partners or stockholders. They may also be requested if you should wish to sell your business.
- Your records also help you control your investment in inventory, accounts receivable, buildings, and equipment.

In addition, problems may arise when business owners do not understand accounting and fail to keep proper records. The owners do not know if the business is operating at a profit or loss until they compute the "bottom line" at tax time or at the end of the year when an accountant is hired to analyze the operation. The business owner needs to know where the business is going on a day-to-day basis. Yearly financial reports are important and useful, but timely knowledge of operating conditions is even more important if the entrepreneur wishes to turn a small business into a bigger business.

WHAT ARE THE REQUIREMENTS OF A GOOD RECORDKEEPING SYSTEM?

A good recordkeeping system has six major elements. It must be (1) simple to use, (2) easy to understand, (3) reliable, (4) accurate, (5) consistent, and (6) designed to provide information on a timely basis.



WHAT'S MEANT BY SINGLE-ENTRY AND DOUBLE-ENTRY BOOKKEEPING SYSTEMS?

There are two basic kinds of bookkeeping systems available for accounting purposes. They are single-entry and the double-entry systems. Each of these systems will be examined.

Single-entry. When a single-entry bookkeeping system is used, transactions are recorded only once. Therefore, only a single set of figures are available. This system is simplified. It is inexpensive and easy to operate, but if a mistake is made, it is extremely difficult to locate it. Other points to consider about the single-entry form of bookkeeping are as follows:

- Many simplified, single-entry systems are available at stationery or office supply stores for a very low cost.
- These systems can be maintained by individuals with little or no formal education, training, and/or experience in accounting.

- Less time is required with this system because each entry is entered only once.
- As mentioned previously, errors are more difficult to find. In addition, losses of money and merchandise are more difficult to trace due to this lack of internal controls.
- Subsidiary systems may be required to keep track of the various parts of the business.

Initially, a single-entry system may be adequate for the small business. It usually concentrates on the flow of income and expenses and is adequate for tax purposes.

Double-entry. Double-entry systems are more complicated. They involve recording each item in two different places, such as in ledgers, journals, or on cards, and in two different ways, by means of a debit and a credit. For example, when a customer pays a bill for $200, that customer's charge account on the books of the business is credited (reduced) by $200, and the cash account on the business records is debited (increased) by $200. This single payment of $200 shows up in two places on the business books. Other transactions are also recorded in terms of debit and credit. In this manner, two sets of figures are developed. The total of one set should equal the total of the other. If the totals do not balance, a mistake has been made. Other points regarding this system are as follows:

- The system is more complicated and may require a skilled individual to set it up and maintain it.
- Errors and losses can be spotted quickly because the entire business is controlled by the system and the debits and credits of each account must balance out.
- A large amount of management information is provided since daily or monthly comparisons can be made for any account item in the business.
- The larger number of entries makes room for more errors, but the system is designed so that errors can be detected and traced back to the source.

As a result of this safety factor for detecting errors, the double-entry system is more commonly used than the single-entry system. It may be used in a variety of business situations.

HOW ARE RECORD SYSTEMS MAINTAINED?

Modern accounting records are not difficult to maintain. Model sets of records can be obtained from the manufacturers of some cash registers. Some standardized systems can be purchased in stationery or office supply stores. Some trade groups and other business associations have standard records they recommend for their members. Several copyrighted bookkeeping systems are available. These systems cover the basic records and provide complete instructions for their use. In addition, the Small Business

Administration's (SBA) publication number 15, "Recordkeeping Systems," lists a variety of bookkeeping systems. You can get a free copy of it from SBA, P.O. Box 15434, Fort Worth, Texas 76119.

Many small businesses, especially small retail businesses, do not need elaborate records. Several small businesses use the cash register to obtain information for financial records. Information can be taken from the cash register audit tape and copied onto the daily balance form. A special form listing daily cash payments should be maintained. Some cash registers provide for these amounts to be shown on the daily audit slip. In the absence of adequate records by cash register tape, other records should be made of all types of sales, receipts, and payments.

The growth of microcomputers for personal and small business use plus the drop in computer prices have made the computerization of accounting systems a realistic alternative. Several models are available and emerging. Library and bookstore shelves contain books regarding these personal and business computers, plus the new and emerging technology that is designed to simplify business operations. Two books are recommended for entrepreneurs who are thinking about computerizing their business operations. They are Brian R. Smith's *The Small Computer in Small Business*, and Jules A. Cohen's *How to Computerize Your Small Business*.

As a small business owner/manager, you may be concerned about the costs of designing and using a recordkeeping system. However, you will need to remember that adequate records will help you control costs and manage effectively.

As you work through the PACE units, you will have an opportunity to determine the types of records that you will need in your business. You will also have an opportunity to design some—if not all—of your forms for recordkeeping. Remember that you will need to develop systems and records that will make the most efficient use of both your time and staff time.

WHICH RECORDS ARE COMMON TO MOST BUSINESSES?

Every business has unique recordkeeping needs, but there are some accounting records that are common to most businesses. You may already be familiar with some of these. Most business people keep the following records up to date:

- The business checkbook
- Daily sales and cash summary
- Accounts receivable journal
- The bank reconciliation statement
- Basic payroll records

WHAT INFORMATION IS RECORDED IN THE BUSINESS CHECKBOOK?

The business checkbook is not very different from a personal checkbook. The business checkbook has two parts that must be filled out each time a check is written. The first part is the check itself, which looks just like your personal checks. Figure 1 is an example of a business check.

CHECK STUB

Jones Plant Shop
4427 Cross Street
Citytown, Ohio

No. 976

Date _____ 19____

Pay to the order of _____ $ _____

_____ dollars

Signature _____

Citytown Bank
5201 Stockdale Highway
Citytown, Ohio 43220

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Figure 1. Business check

The second part, the business check stub, is more detailed than those of individual personal checking accounts. The steps involved in preparing a check stub include filling in the spaces underlined in figure 2. Check stubs contain space for information that you will need for the business records. You may need to complete some calculations to fill in the required data. The following information should be filled out; in this example, data are used from the check in figure 1:

- The check number, usually preprinted by the bank (976)
- The date the check was written (November 21, 1982)
- To whom the check was written (Sunset Supply Company)
- The purpose of the payment (50 prayer plants, 100 Boston Ferns, 80 Chinese Ferns),
- The balance brought forward from the last check (Bal. Bro't. For'd.—$2,590.00)
- Any deposits that may have been made since the last deposit (add $300)
- The new total (add to get $2,890.00)
- The amount of this check (subtract $476.00)
- The new balance to be carried forward to the next check stub (Bal. Car'd For'd—$2,424.00)

Check No. 976		$ 476.00
Date	November 21, 1979	
To	Sunset Supply Company	
For	50 Prayer Plants 100 Boston Ferns 80 Chinese Ferns	
Bal. Bro't For'd		$ 2,590.00
Amt. deposited		+ 300.00
Total		$ 2,890.00
Amt. this check		476.00
Bal. Car'd. For'd.		$ 2,424.00

Figure 2. Business Check Stub

WHAT IS THE DAILY SALES AND CASH SUMMARY?

The daily sales and cash summary provides you, the business owner, with two important types of information. First, it provides information about whether the cash you have at the end of the day matches the amount that your sales receipts indicate you should have in cash. Consider the following daily sales and cash summary.

At the end of the day you count your cash and it totals $520. This is your daily cash summary. You check and find that credit sales for the day were $60. Adding this $60 to your cash sales results in a daily sales summary of $580. When you total the sales receipts and the accounts receivable income, you get $570. There is a problem because of a $10 difference. You should then ask a series of questions: Was some transaction not recorded? Was an arithmetic error made? Was incorrect change given to a customer? Was an error made in recording the selling price? It's better to complete a daily summary and find and possibly correct the error that day than have to find it at the end of the month.

Second, the daily sales and cash summary provides data that can be used in completing other records that tell you how well your business is doing.

Although forms for a daily sales and cash summary vary, all forms should include the following basic information:

- Date
- Cash received and charge sales made
- Income received on accounts receivable (money owed to the business)
- Total cash received

More detailed daily sales and cash summaries might break these entries down to provide additional information to meet specific recordkeeping needs. Figure 3 shows the daily sales and cash summary form for July 7, 1982, for a firm whose cash sales for the day totaled $624, charge sales totaled $150, and the amount received from credit customers' accounts was $70.

The completed daily sales and cash summary should look like this:

Date	July 7, 1982	
Cash sales		$ 624.00
Charge sales		150.00
Accounts receivable		70.00
Total sales and cash received		$ 844.00

Figure 3. Daily sales and cash summary

HOW DO YOU RECORD ACCOUNTS RECEIVABLE?

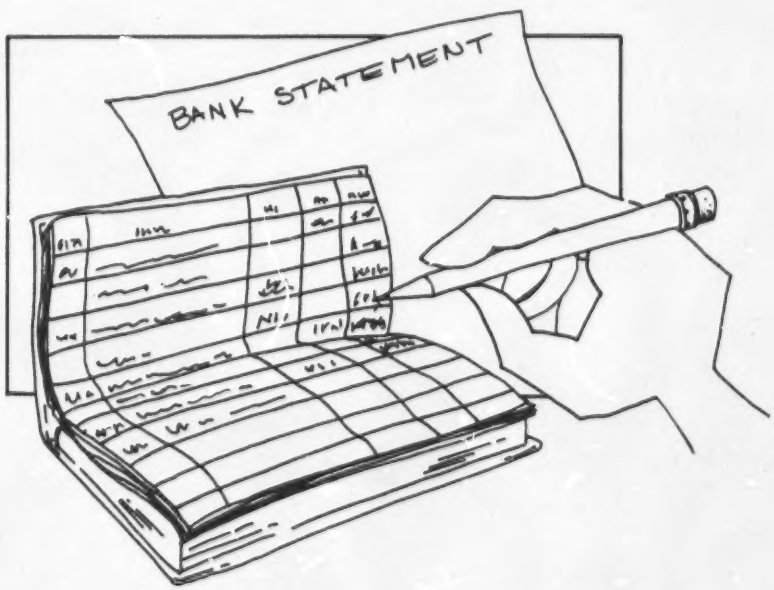
Many small businesses extend credit to their customers. A set of records for these sales needs to be kept. This set of records is known as the accounts receivable journal. Perhaps your firm will extend its own credit to its customers instead of working with one of the national or bank credit card companies. If it does, you will need to keep records of what your credit customers owe and have paid. This is really your only account of how much they owe your business. Figure 4 is an accounts receivable record.

Customer	Mr. Maurice Johnson		Phone (517) 487-8152	
Address	227A South Park Avenue			
	East Lansing, MI 48823			
Date	Details	Charge	Payment	Balance
Oct. 14, 1982	Sales Slip No. 2004	$150		$150
Oct 29, 1982	Check No. 946		$100	50
Nov. 5, 1982	Check No. 1007		50	-0-
Nov. 15, 1982	Sales Slip No. 3728	45		45

Figure 4. Accounts receivable record

HOW DO YOU RECONCILE THE BANK STATEMENT?

Each month the bank sends you a record of the deposits and checks written on your firm's bank account. Ideally, the balance shown on the bank statement should always correspond to the balance shown on your check stub. Unfortunately, this almost never happens. Checks may still be outstanding, having not been cashed by the person or firm to whom they were issued. Deposits may not have been recorded by the bank before the bank statement was prepared. Therefore, you need to reconcile the bank statement with your records. Reconciling is just a way to ensure agreement between your recordkeeping data and the bank's information. It will enable you to detect errors, record bank charges, and locate any "lost" checks. Figure 5 lists steps you might use to reconcile the bank statement. Figure 6 is a reconciled bank statement.



Information	Steps
1. Bank statement balance	1. Enter balance amount shown on bank statement.
2. Deposits not credited	2. List any bank deposits not recorded on the statement.
3. Total deposits	3. Total these deposits.
4. Total	4. Add the total deposits to the bank statement.
5. Outstanding checks	5. List any checks not recorded as cash.
6. Total checks	6. Total the amount of the checks.
7. Adjusted balance	7. Subtract the total checks from the total in No. 4.
8. Checkbook balance	8. Enter balance shown on last check stub.
9. Bank service charge	9. Subtract the bank service charge to get the total in No. 10. Line No. 10 should match line No. 7.
10. Final checkbook balance	

Figure 5. Elements of a bank reconciliation statement

Bank statement balance		$ 2,760.00
Deposits not credited	$ 780.00 640.00 940.00	
Total deposits	$2,360.00	2,360.00
Total		$ 5,120.00
Outstanding checks	$ 50.00 1,002.00 35.00	
Total checks	$1,087.00	1,087.00
Adjusted balance		$ 4,033.00
Checkbook balance		$ 4,035.00
Bank service charge		$ 2.00
Final checkbook balance		$ 4,033.00

Figure 6. Bank reconciliation statement

WHAT RECORDKEEPING IS USED FOR THE PAYROLL?

As the employer, you also will want to record the following information for each part-time or full-time worker:

- Total wages earned

- Hours worked (if applicable)
- Overtime earnings
- Deductions taken from wages
- State unemployment insurance
- State disability insurance (if applicable)
- Federal income taxes
- Social Security taxes (FICA)
- State and/or local income taxes, if applicable
- Other deductions, including health and accident insurance, life insurance, and credit union deposits

As an employer, you will have to figure and record the wages and deductions of each employee. You should record this information carefully and accurately. Not only will you want to record this information in the checkbook, but you will also want to record the information in a form that you can use for computing and preparing business and tax reports.

In order to keep payroll records, businesses often have separate employee payroll checkbooks. Most employee paychecks include a tear-off check with payroll information. This section probably contains the following:

- Gross pay
- Net pay
- Social Security deduction (FICA)
- State disability insurance (if applicable)
- Federal tax deduction
- State and/or local tax deduction, if applicable
- Insurance deductions, if applicable
- Other deductions

At the end of each quarter, you will need to report federal income taxes, Social Security taxes (FICA), and state and/or local income taxes, if applicable, that have been withheld from each employee. The Internal Revenue Service (IRS) will provide you with a booklet explaining how deductions are to be calculated. It contains charts that you can use to determine how much to deduct, as well as instructions on how to submit monies withheld.

ACTIVITIES

Do you feel knowledgeable about the requirements of a good recordkeeping system? The following activities will help you practice using your knowledge.

INDIVIDUAL ACTIVITY

Obtain and complete the forms necessary to open a checking account for your business.

INDIVIDUAL ACTIVITY

Go to a local office supply firm and see what commercial forms are available for recordkeeping. Would these forms be adequate for your business? Why or why not?

GROUP ACTIVITY

Conduct a debate with your classmates regarding the pros and cons of single-entry versus double-entry bookkeeping.

GROUP ACTIVITY

Break up into small groups of three to four people. Study the following statement:

"Reconciling a bank statement takes up a great deal of time. Really, it's doubtful if such time spent by the small owner is worthwhile. Banks don't often make mistakes!"

Discuss this statement with your group. Do you agree or disagree? Why?

CASE STUDY

Sally Satchis is planning to open a restaurant. She has decided that she will have a single-entry bookkeeping system and she plans to keep the records. Identify the basic records that she will need and assist Sally in setting up these basic items.

ASSESSMENT

Directions: Read the following questions to check your own knowledge of the information in this unit. When you feel prepared, ask your instructor to test you.

1. Describe why a small business firm needs to keep records.
2. Identify six elements of a sound recordkeeping system.
3. Explain the difference between a single-entry recordkeeping system and a double-entry system.
4. Use the following information to complete the bank reconciliation statement shown in figure 7. Write your answers on a separate piece of paper.

Bank statement balance	$2,760.00
Deposits not credited	$ 780.00
	640.00
	940.00
Outstanding checks	$ 50.00
	1,002.00
	35.00
Balance shown on the last check stub	$4,035.00
Bank service charge	$ 2.00

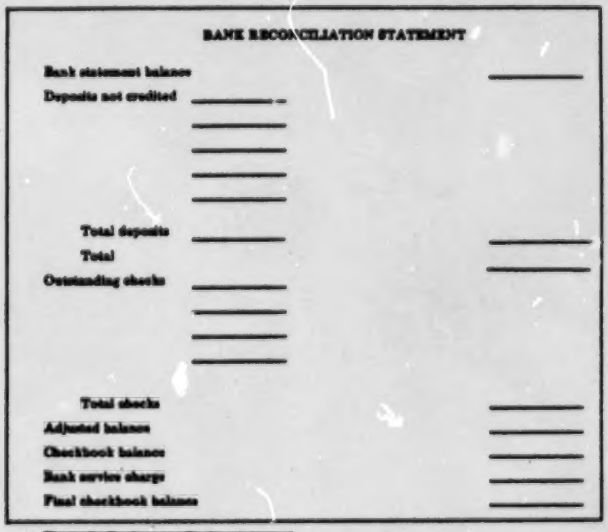


Figure 7. Bank reconciliation statement (Check your answers against figure 6.)

5. Specify the information that should be included on an accounts receivable record.
6. Identify and describe the basic information that employee records should include.

SOURCES USED TO DEVELOP THIS UNIT

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PACE

Unit 1. Understanding the Nature of Small Business

Unit 2. Determining Your Potential as an Entrepreneur

Unit 3. Developing the Business Plan

Unit 4. Obtaining Technical Assistance

Unit 5. Choosing the Type of Ownership

Unit 6. Planning the Marketing Strategy

Unit 7. Locating the Business

Unit 8. Financing the Business

Unit 9. Dealing with Legal Issues

Unit 10. Complying with Government Regulations

Unit 11. Managing the Business

Unit 12. Managing Human Resources

Unit 13. Promoting the Business

Unit 14. Managing Sales Efforts

Unit 15. Keeping the Business Records

Unit 16. Managing the Finances

Unit 17. Managing Customer Credit and Collections

Unit 18. Protecting the Business

Resource Guide

Instructors' Guide

Units on the above entrepreneurship topics are available at the following three levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business

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